

Minutes of Audit Committee Meeting of October 3, 2017

**One Twin Pines Lane
City Hall, Suite 360
CALL TO ORDER 10:03 A.M.**

ROLL CALL

COMMITTEE MEMBERS PRESENT: Violet, Kim, Hurt

STAFF PRESENT: Finance Director Fil, Deputy Finance Director Paras, City Manager Scoles, City Attorney Rennie, Management Analyst Voelker

OTHERS PRESENT: Members of the public; Mark Wong, Principal, Maze & Associates (Invited)

ORAL COMMUNICATION/PUBLIC COMMENTS

Perry Kennan, Belmont resident, requested that the Audit Committee consider adding an item to an upcoming City Council agenda regarding the City's unfunded liabilities, stating that there is concern from citizens that these liabilities are growing.

CONSENT CALENDAR

ACTION: Moved by Committee Member Hurt, seconded by Committee Member Kim, by unanimous voice vote, the June 5th meeting minutes were noted and filed.

OTHER BUSINESS

Fiscal Year 2017 Audit Results

Director Fil provided a summary overview of the audit results for fiscal year 2017, noting positive, solid results in the General Fund balance, revenues and net position. Of note, a significant infrastructure failure could potentially destabilize the General Fund and continues to be a concern. Discussion ensued on the City's infrastructure reserves, the lack of dedicated capital funds for the City's deficient storm drain system and funding for aging facilities.

Director Fil spoke briefly on the City's robust internal controls, the rise in PERS and retirement obligations (OPEB) costs, and upcoming accounting and actuarial changes that indicate greater conservatism in accounting and reporting. He also noted that the City received the highest level of assurance from the independent auditor and was also a recipient again of the GFOA Award for Excellence in Reporting.

Deputy Director Paras reviewed the details of the Comprehensive Annual Financial Report (CAFR), highlighting total net position and its increase from prior year. Prompted by Committee Member Kim, discussion ensued on debt issuance and outstanding debt.

Principal Mark Wong began his required communication to the Audit Committee, providing a report on the City's internal controls and opining on the financial statements. He reviewed the Memorandum on Internal Control and noted that an unmodified opinion was issued, reporting no material weaknesses or significant deficiencies found in this year's audit.

Principal Wong stated that they expect some material changes in the reporting next year with the implementation of GASB 75, which will require the City to report additional retirement obligations as liabilities. Director Fil noted that staff recommends the City implement a plan of amortization of the unfunded liability for this change.

Principal Wong reviewed the Memorandum on Internal Control and confirmed that there were no issues with management. He thanked the Finance Department for a successful audit and for its well-established internal controls, noting that this was the earliest release of financial statements in Belmont's recent history. In response to Chair Violet's question, Principal Wong stated that the auditors found no need to speak with the Committee privately.

The Audit Committee agreed that the CAFR and all related reports were noted and filed.

Consideration of Draft Audit Committee Annual Report

The Committee reviewed the draft staff report provided by Chair Violet and agreed to move the staff report date to October 10th.

ACTION: Moved by Committee Member Kim, seconded by Committee Member Hurt, by unanimous voice vote, the annual Audit Committee report was recommended for approval by the City Council.

Financial Policy Updates

Director Fil explained that the financial policies are part of the City's governance and are used as a guide in following best practices. They include best practices and advisories from the Government Finance Officers Association (GFOA), the City's Investment Policy, and the City's Procurement Policy. The financial policies are not prescriptive or required, but they do serve as a standard by which Belmont endeavors to follow as a best practice city.

Director Fil stated that the Audit Committee received in their packet all newly published and updated GFOA best practices and advisories, which are being added to the City's financial policies, are incorporated into a list in the appendix to the memo for the Committee's review. Staff will update the City's website accordingly.

ACTION: Moved by Committee Member Hurt, seconded by Committee Member Kim, by unanimous voice vote, the Audit Committee recommended inclusion of the Updated Financial Policies in the Annual Audit Committee Report.

Audit Firm RFP

Chair Violet noted that, at their last meeting, the Committee directed staff to prepare and issue a Request for Proposals (RFP) for auditing services, review those proposals, and bring back no more than five proposals for the Audit Committee to consider. He stated that the Finance Department provided four proposals to the Committee under separate cover and would like to discuss those proposals with the Committee at today's meeting.

The Audit Committee exchanged their feedback on all four firms and discussed the importance of selecting a firm that will provide services that are equal to or better than what the City is currently receiving from Maze & Associates. After thorough discussion, the Audit Committee reached consensus and selected Maze & Associates as the City's independent auditor for a five-year term (one-year engagement with the option for four additional years), subject to their plan for a partner rotation, which is a best practice and is consistent with AB 1345 requiring periodic lead audit partner or coordinating audit partner rotation.

Director Fil noted that staff would draft the staff report to Council, recommending approval of the contract, for the October 10th Council meeting.

Moved by Committee Member Kim, seconded by Committee Member Hurt, by unanimous voice vote, the Audit Committee recommended the selection of Maze & Associates as the City's independent auditor for a five-year term (one-year engagement with the option for four additional years), subject to a planned partner rotation.

COMMITTEE UPDATES AND STAFF ITEMS

Meeting Calendar

Chair Violet noted that date and time of the next scheduled meeting in late February or early March is to be determined.

Other

Director Fil noted that Measure I Fund revenues came in slightly below the estimate. Staff will be calling together the Measure I Advisory Committee in the next month or so to review the Measure I financial statements.

ADJOURNMENT 12:05 p.m.

**Thomas Fil
Finance Director**